

directly into extension of trading operations, or placed in investments, flows, as deposits, into the banks, whence it percolates into the money market generally in the modes already described.

It has been estimated that of the supply of money thus held by the banks, 95 per cent is employed in advances for promoting the industries of the country throughout the world, while only 5 per cent is retained in cash.

The *demand* for this supply will depend upon the fewer or more numerous business transactions which require to be settled: in other words, the briskness or slackness of trade. Increased trade will create a larger number of Bills of Exchange as the evidence of indebtedness thereby created, and the representative mode of its discharge; and the greater the volume and value of bills the more augmented the demand for money for their discount. Many other causes will affect the range of this demand—enlarging or contracting it—but all associated with the state of commerce and trade: the soundness and genuineness of business as well as its mass; political, financial and social conditions and difficulties; the current extent of credit or trust in each other's capacity to fulfil his obligations; and the scope of investment in securities on the Stock Exchange.

Finally, the relation between the amount of the supply and the concurrent amount of the demand will determine the *Rate of Interest* or the extent of the consideration required for the use of funds. If the demand exceed the supply, this rate will obviously ascend until an equilibrium is established; and a reduced rate marks the fact that the supply is excessive for current requirements. The terms for loans are mainly based upon what is termed the "official minimum" of the Bank of England, or the lowest rate at which that Bank will lend to its customers, since this affords a reasonable index to the intensity or feebleness of the prevailing competition for money.

It has already been pointed out that the entire commercial and financial fabric is built upon credit or confidence in each other : trust in character, in soundness of business methods, and in solvency. A

Bill of Exchange, for example, is readily accepted in discharge of a debt, when the receiver feels